

**WATER/FLC/TAC/jrb**

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**WATER DIVISION**

**RESOLUTION W-4616  
October 5, 2006**

**R E S O L U T I O N**

**(RES. W-4616), HAVASU WATER COMPANY, INC. (HWC). ORDER  
AUTHORIZING A GENERAL RATE INCREASE IN TWO STAGES  
PRODUCING ADDITIONAL ANNUAL REVENUE OF \$69,891 OR  
53.4% IN TEST YEAR 2006.**

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**SUMMARY**

By Draft Advice Letter, filed on December 14, 2005, HWC seeks an increase in rates for water service to recover increased expenses of operation and earn an adequate return on its plant investment. This resolution grants a general rate increase in annual revenues in two stages six months apart, first stage increase of \$34,946 or 26.7%, and second stage increase of \$34,945 producing overall additional annual revenue of \$69,891 or 53.4% in Test Year 2006. This increase will provide a rate of margin of 25%.

**BACKGROUND**

HWC, a class D utility, requests authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service to produce additional revenues of \$72,712, or 55.54% in 2006. This general rate increase is filed in compliance with Ordering Paragraph 6 of Resolution No W-4541, dated June 16, 2005, which required HWC to file a general rate increase within 180 days from the date of the Order. HWC's request shows 2006 gross revenue of \$130,910, at present rates increasing to \$203,622, at proposed rates. The request was submitted utilizing the rate of return method rather than the rate of margin method. The company later asked that the rate of margin method be used in determining proposed rates.

HWC is a corporation owned by W.R. Holcomb and E.L. Hodges. John Blythe and Tom Robertson are responsible for plant and equipment operations. John Blythe holds a T2 Certificate Plant Operator license. Teddye Goodgame is responsible for account receivables, billing and customer relations, and also holds a T2 Plant Operator license.

E.L. Hodges and Mary Hodges manage the water system, overseeing actual operations, purchasing equipment, etc..

HWC currently serves 212 metered-rate customers in the southeast desert basin, located approximately 28 miles South of Needles, San Bernardino County. HWC' current rates became effective on May 8, 2003 by Resolution No. W-4395, which authorized a rate base offset and a cost of living (CPI-U) rate increase. The last general rate increase was approved on January 9, 2002 through Resolution No. W-4316. At that time, the company was granted a rate increase of \$16,082 or 18.93% and a rate of return of 13.25%.

The system consists of four pumps (including a diesel operated standby pump at Lake Havasu), a chlorinator, sand filter, 150,000-gallon storage tank and a 10,000-gallon pneumatic tank. Water is disinfected by chlorine before entering the distribution system. The water transmission system consists of 10,000 feet of 4, 6 and 8-inch diameter cement-asbestos pipe. Water supply is adequate. HWC meets all other provisions of GO 103.

In its original General Rate Case (GRC) filing, HWC requested Purchased Water cost of \$6,792. HWC later amended this request to \$10,136. On May 24, 2006, City of Needles informed HWC that the Annual Operation, Maintenance, Replacement, and Administration (OMRA) charges will increase, hence increasing the amount of water expenses incurred by HWC beyond the original estimate.

At staff's request, HWC prepared projections on revenue requirements and reduction of rates for current customers if 100 new VDL customers were added. From these projections, it is clear that current customers would greatly benefit with the addition of new customers.

During the public meeting, Mr. Hodges requested that the rate increase take place in two stages. Mr. Hodges realizes that the proposed rate increase is a large burden on the existing customers and would like to potentially lessen this burden with the hope that the pending lawsuit will increase the customer base. If the lawsuit does produce favorable results, it is possible that the second stage of the increase would not be necessary and at least partially alleviated.

### **NOTICE AND PUBLIC MEETING**

A notice of the proposed general rate increase was mailed to each customer on April 24, 2006. Twelve letters objecting to the increase was received by the Branch, primarily complaining about the magnitude of the increase.

The public meeting was held on May 18, 2006. The meeting started at 6:10pm and adjourned at 7:30 pm. About forty people attended the meeting. Ms. Cherkas, Senior Utilities Engineer, explained Commission rate setting procedures. Mr. Marino Rodriguez, consultant to the HWC, explained the need for the increase. Mr. Hodges, manager of the HWC, explained the circumstances of the ongoing lawsuit with HLI. The customers who attended the meeting asked questions about various expense categories and the ongoing lawsuit.

## **DISCUSSION**

The Commission Water Branch (Branch) made an independent analysis of HWC's summary of earnings and issued its report on July 31, 2006. Appendix A shows HWC's and the Branch's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows differences between HWC's and the Branch's estimates in operating revenues and expenses. HWC was informed of the Branch's differing views and it agrees with the Branch's findings.

Two methods are available for Branch to utilize in the rate-making process: (1) Rate of Return and (2) Rate of Margin. Branch calculates the revenue requirement utilizing the rate of return method and then calculates the revenue requirement utilizing the rate of margin method. Policy dictates that Branch recommends the method that produces the higher revenues<sup>1</sup>. This method gives the small water utilities the opportunity to earn a more reasonable and appropriate revenue requirement when the utility has "little rate base".<sup>2</sup> If only the Rate of Return Method was used, a utility with little or no rate base would earn little or no return. By having the opportunity to use Rate of Margin, these utilities are able to earn a reasonable profit.

In Resolution No. W-4524 (March 17, 2005), the CPUC adopted a revised set of standard practices for determining the profit of Class C and D water utilities using the rate of return and rate of margin methods. Based on this revision, the Water Division determines a standard set of rates of return and rates of margin based on current data, to be used by Branch in that year's Class C and D general rate cases.

In the rate of margin method, the utility's revenue requirement is defined as the sum of its operating and maintenance expenses, depreciation expenses, income and other taxes, multiplied times one plus the rate of margin. A rate of margin of 25% was used.

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<sup>1</sup> D.92-03-093, March 31, 1992.

<sup>2</sup> *ibid*, p.37.

Comparison of the revenue requirement indicates that the Rate of Margin method produces a higher revenue requirement. Based on current rates, HWC's annual revenue for Test Year 2006 is \$200,801. At the recommended rate of margin, the increase in revenue will be of \$69,891 or 53.4% for Test Year 2006.

HWC's current rate structure consists of one schedule: Schedule No. 1, General Metered Service. In order to reduce the impact of the rate increase, HWC requested that the rate increase be completed in two stages – 50% now, and 50% in 6 months time. This time delay will also allow both the company and CPUC to incorporate any changes to customer base once the ongoing law suit with the HLI (see discussion above) is finalized. HWC files its Annual Reports regularly and there are no other outstanding Commission orders.

At the Branch's recommended rates shown in Appendix B, the bill for a typical residential customer with a 5/8-inch meter using an average of 22 Ccf of water would receive a stage one increase in a monthly bill from \$91.99 to \$119.99 or 30.44% and a stage two increase to \$148.00, or an overall increase of 60.89% in test year 2006. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

### **COMPLIANCE**

The utility has been filing annual reports as required. However, HWC needs to update the following tariff schedules in its tariff book: Preliminary Statement; Rule No. 5, Special Information Required on Forms; Rule No. 7, Deposits; Rule No. 10, Disputed Bills; Form No. 2, Customer's Deposit Receipt; and, Form No. 3, Bill for Service.

### **COMMENTS**

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

### **FINDINGS**

1. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates proposed by the Branch (Appendix B) are reasonable and should be adopted.

3. The quantities (Appendix D) used in preparation of this resolution are reasonable and should be adopted.
4. HWC should update the following tariff schedules in its tariff book: Preliminary Statement; Rule No. 5, Special Information Required on Forms; Rule No. 7, Deposits; Rule No. 10, Disputed Bills; Form No. 2, Customer's Deposit Receipt; and, Form No. 3, Bill for Service.
5. The rate increase proposed by the Branch is justified and the resulting rates are just and reasonable.
6. This is an uncontested matter subject to the public notice comment exclusion provided in the PU Code Section 311(g)(2).

**THEREFORE IT IS ORDERED THAT:**

1. Authority is granted under Public utilities Code Section 454 to Havasu Water Company to file an advice letter incorporating the summary of earnings and the revised schedules attached to this resolution as Appendices A and B respectively, and concurrently cancel its presently effective Schedule No. 1, General Metered Service. The effective date of the revised schedules shall be five days after the date of filing.
2. Havasu Water Company, Inc. shall update the following tariff schedules in its tariff book: Preliminary Statement; Rule No. 5, Special Information Required on Forms; Rule No. 7, Deposits; Rule No. 10, Disputed Bills; Form No. 2, Customer's Deposit Receipt; and Form No. 3, Bill for Service.
3. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on October 5, 2006; the following Commissioners voting favorably thereon:

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STEVE LARSON  
Executive Director

**Appendix A**  
**Havasu Water Company, Inc.**  
**Summary of Earnings**  
**Test Year 2006**

| Description                     | HWC<br>Present<br>Rates | HWC<br>Requested<br>Rates | Branch<br>Present<br>Rates | Branch<br>Requested<br>Rates | Branch<br>Recommended<br>Rates |
|---------------------------------|-------------------------|---------------------------|----------------------------|------------------------------|--------------------------------|
| <b>OPERATING REVENUES</b>       |                         |                           |                            |                              |                                |
| Metered Water Revenue           | 130,910                 | 203,620                   | 130,910                    | 200,801                      | 200,801                        |
| TOTAL REVENUES                  | 130,910                 | 203,620                   | 130,910                    | 200,801                      | 200,801                        |
| <b>OPERATING EXPENSES</b>       |                         |                           |                            |                              |                                |
| Purchased Water                 | 7,606                   | 10,136                    | 7,606                      | 10,136                       | 10,136                         |
| Purchased Power                 | 14,156                  | 14,156                    | 14,156                     | 14,156                       | 14,156                         |
| Other Volume Related Exp.       | 1,546                   | 1,546                     | 1,546                      | 1,546                        | 1,546                          |
| Employee Labor                  | 23,520                  | 23,520                    | 23,520                     | 23,520                       | 23,520                         |
| Materials                       | 8,426                   | 9,530                     | 8,426                      | 8,850                        | 8,850                          |
| Contract Work – General Exp.    | 2,042                   | 2,042                     | 532                        | 560                          | 560                            |
| Contract Work – Water Testing   | 2,455                   | 3,091                     | 2,455                      | 2,580                        | 2,580                          |
| Transportation Expenses         | 4,485                   | 7,500                     | 4,485                      | 7,500                        | 7,500                          |
| Office Salaries                 | 10,493                  | 11,256                    | 10,493                     | 11,256                       | 11,256                         |
| Management Salaries             | 12,000                  | 12,000                    | 12,000                     | 12,000                       | 12,000                         |
| Uncollectible Accounts Exp.     | 0                       | 0                         | 0                          | 0                            | 0                              |
| Office Services and Rentals     | 6,000                   | 6,000                     | 6,000                      | 6,000                        | 6,000                          |
| Office Supplies and Expenses    | 5,564                   | 5,676                     | 5,564                      | 5,676                        | 5,676                          |
| Professional Services           | 6,766                   | 6,766                     | 6,766                      | 6,766                        | 6,766                          |
| Insurance                       | 8,352                   | 9,561                     | 8,352                      | 9,561                        | 9,561                          |
| Regulatory Commission Expenses  | 2,647                   | 8,450                     | 2,647                      | 3,450                        | 3,450                          |
| General Expenses                | 7,537                   | 7,537                     | 7,537                      | 7,537                        | 7,537                          |
| SUBTOTAL                        | 123,595                 | 138,767                   | 114,479                    | 131,094                      | 131,094                        |
| Depreciation Expense            | 8,179                   | 9,919                     | 9,318                      | 9,318                        | 9,318                          |
| Taxes Other Than Income Taxes   | 11,072                  | 12,234                    | 11,072                     | 12,190                       | 12,190                         |
| Income Taxes                    | 800                     | 9,614                     | 800                        | 10,852                       | 10,852                         |
| TOTAL DEDUCTIONS                | 155,517                 | 170,535                   | 135,669                    | 163,453                      | 163,453                        |
| NET REVENUE                     | -                       | 33,087                    | -                          | 37,348                       | 37,348                         |
| <b>RATE BASE</b>                |                         |                           |                            |                              |                                |
| Average Plant                   | 494,312                 | 494,312                   | 450,562                    | 450,562                      | 450,562                        |
| Less: Avg. Accum. Depreciation. | 170,387                 | 170,387                   | 168,900                    | 168,900                      | 168,900                        |
| CIAC                            | 84,183                  | 84,183                    | 84,183                     | 84,183                       | 84,183                         |
| Plus: Working Cash.             | 10,300                  | 11,564                    | 9,540                      | 10,925                       | 10,925                         |
| Materials and Supplies          | 1,000                   | 1,000                     | 1,000                      | 1,000                        | 1,000                          |
| RATE BASE                       | 251,042                 | 252,306                   | 208,020                    | 209,404                      | 209,404                        |
| <b>RATE OF RETURN</b>           | -                       | 13.11%                    | -                          | 17.84%                       |                                |
| <b>OPERATING RATIO</b>          |                         |                           |                            |                              | 25%                            |

**Appendix B**  
**Havasu Water Company, Inc.**

**Schedule No. 1**  
**GENERAL METERED SERVICE**

**STAGE ONE**  
**VALID FOR 6 MONTHS FROM DATE OF THIS RESOLUTION**

**APPLICABILITY**

Applicable to all metered water service.

**TERRITORY**

The Area known as Tract Nos. 6493, 6494, 6495, 5968, 8284 and vicinity, and a 40-acre parcel about 3,000 feet to the north located near Havasu Landing, approximately 28 miles south of Needles, San Bernardino County.

**RATES**

|                                   |                  |     |
|-----------------------------------|------------------|-----|
| Quantity Rates:                   | <u>Per Month</u> |     |
| All water used per 100 cubic feet | \$3.49           | (I) |
| Service Charge:                   |                  |     |
| For 5/8 x 3/4-inch meters         | \$43.17          | (I) |
| For 3/4-inch meters               | \$64.75          |     |
| For 1-inch meters                 | \$107.91         |     |
| For 1-1/2-inch meters             | \$215.83         | (I) |

The Service Charge is a readiness-to-serve charge, which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rate.

**SPECIAL CONDITIONS**

1. A late charge will be imposed per Schedule No. LC.
2. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in that unit will, at the company's option, be furnished on the account of the landlord or property owner.
3. In the event that customer terminates service under this schedule and reinstates service at the same location, there will be a reconnection charge equal to the minimum charge which would have been billed had the customer not terminated service.
4. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

**Appendix B**  
**Havasu Water Company, Inc.**

**Schedule No. 1**  
**GENERAL METERED SERVICE**

**STAGE TWO**  
**VALID AFTER 6 MONTHS FROM DATE OF THIS RESOLUTION**

**APPLICABILITY**

Applicable to all metered water service.

**TERRITORY**

The Area known as Tract Nos. 6493, 6494, 6495, 5968, 8284 and vicinity, and a 40-acre parcel about 3,000 feet to the north located near Havasu Landing, approximately 28 miles south of Needles, San Bernardino County.

**RATES**

|                                   |                  |     |
|-----------------------------------|------------------|-----|
| Quantity Rates:                   | <u>Per Month</u> |     |
| All water used per 100 cubic feet | \$ 4.374         | (I) |
| Service Charge:                   |                  |     |
| For 5/8 x 3/4-inch meters         | \$ 51.76         | (I) |
| For 3/4-inch meters               | \$ 77.64         |     |
| For 1-inch meters                 | \$ 129.40        |     |
| For 1-1/2-inch meters             | \$ 258.81        | (I) |

The Service Charge is a readiness-to-serve charge, which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rate.

**SPECIAL CONDITIONS**

1. A late charge will be imposed per Schedule No. LC.
2. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in that unit will, at the company's option, be furnished on the account of the landlord or property owner.
3. In the event that customer terminates service under this schedule and reinstates service at the same location, there will be a reconnection charge equal to the minimum charge which would have been billed had the customer not terminated service.
4. All bills are subject to the reimbursement fee set forth in Schedule No. UF.



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**DRAFT**

October 5, 2006

Havasu Water Co./Draft AL/FLC/TAC;jrb

**Appendix C**  
**Havasu Water Company, Inc.**

**Comparison of Stage One Rates - Test Year 2006**

5/8-INCH METER COMPARISON

| Usage<br>100 cu. ft. | Recommended<br>Rates | Present<br>Rates | Amount<br>Increase | Percentage<br>Increase |
|----------------------|----------------------|------------------|--------------------|------------------------|
| 0                    | \$43.17              | \$34.57          | \$8.60             | 24.86%                 |
| 10                   | \$78.09              | \$60.67          | \$17.42            | 28.71%                 |
| 22                   | \$119.99             | \$91.99          | \$28.00            | 30.44%                 |
| 30                   | \$147.93             | \$112.87         | \$35.06            | 31.06%                 |
| 40                   | \$182.86             | \$138.97         | \$43.89            | 31.58%                 |
| 100                  | \$392.39             | \$295.57         | \$96.82            | 32.76%                 |

1-INCH METER COMPARISON

| Usage<br>100 cu. ft. | Recommended<br>Rates | Present<br>Rates | Amount<br>Increase | Percentage<br>Increase |
|----------------------|----------------------|------------------|--------------------|------------------------|
| 0                    | \$107.91             | \$86.42          | \$21.49            | 24.86%                 |
| 10                   | \$142.84             | \$112.53         | \$30.31            | 26.94%                 |
| 22                   | \$184.74             | \$143.85         | \$40.89            | 28.43%                 |
| 30                   | \$212.68             | \$164.73         | \$47.95            | 29.11%                 |
| 40                   | \$247.60             | \$190.83         | \$56.77            | 29.75%                 |
| 100                  | \$457.14             | \$347.43         | \$109.71           | 31.58%                 |

**Comparison of Stage Two Rates - Test Year 2006**

5/8-INCH METER COMPARISON

| Usage<br>100 cu. ft. | Recommended<br>Rates | Present<br>Rates | Amount<br>Increase | Percentage<br>Increase |
|----------------------|----------------------|------------------|--------------------|------------------------|
| 0                    | \$51.76              | \$34.57          | \$17.19            | 49.73%                 |
| 10                   | \$95.51              | \$60.67          | \$34.84            | 57.42%                 |
| 22                   | \$148.00             | \$91.99          | \$56.01            | 60.89%                 |
| 30                   | \$183.00             | \$112.87         | \$70.13            | 62.13%                 |
| 40                   | \$226.74             | \$138.97         | \$87.77            | 63.16%                 |
| 100                  | \$489.21             | \$295.57         | \$193.64           | 65.51%                 |

1-INCH METER COMPARISON

| Usage<br>100 cu. ft. | Recommended<br>Rates | Present<br>Rates | Amount<br>Increase | Percentage<br>Increase |
|----------------------|----------------------|------------------|--------------------|------------------------|
| 0                    | \$129.40             | \$86.42          | \$42.98            | 49.73%                 |
| 10                   | \$173.15             | \$112.53         | \$60.62            | 53.88%                 |
| 22                   | \$225.64             | \$143.85         | \$81.79            | 56.86%                 |
| 30                   | \$260.64             | \$164.73         | \$95.91            | 58.23%                 |
| 40                   | \$304.38             | \$190.83         | \$113.55           | 59.51%                 |
| 100                  | \$566.85             | \$347.43         | \$219.42           | 63.16%                 |

Resolution W-4616

**DRAFT**

October 5, 2006

Havasu Water Co./Draft AL/FLC/TAC;jrb

**Appendix D**  
**(Page 1 of 2)**  
**Havasu Water Company, Inc.**

Recommended Quantities  
Test Year 2006

1. Federal Tax Rate: 15% for 1<sup>st</sup> \$50,000 of taxable income
2. State Tax Rate: 8.84%
3. Service Connections:

|            |     |           |
|------------|-----|-----------|
| 5/8 x 3/4" | 191 | customers |
| 1"         | 22  | customers |
| 1 1/2"     | 1   | customer  |
| 2"         | 0   | customer  |
| 3"         | 0   | customer  |
| 4"         | 0   | customer  |
| Total      | 214 | customers |
4. Property Taxes: \$3,775  
1.103% tax rate
5. Payroll Taxes: \$5,202
6. Contract Work - Water Testing: \$2,580
7. Purchased Power

Southern California Edison

Schedule No. PA-1

|                      |            |
|----------------------|------------|
| Power Consumption    | 77,370 kWh |
| DWR Generation       | 19,966 kWh |
| SCE (URG) Generation | 57,404 kWh |

Schedule No. OL-1

|                      |         |
|----------------------|---------|
| Power Consumption    | 972 kWh |
| DWR Generation       | 261 kWh |
| SCE (URG) Generation | 711 kWh |

**Appendix D**  
**(Page 2 of 2)**  
**Havasu Water Company, Inc.**

Recommended Quantities  
Test Year 2006

8. Adopted Tax Calculations

| Line<br>No. | Item                                       | State<br>Tax | Federal<br>Tax |
|-------------|--|--------------|----------------|
| 1.          | Operating Revenues                         | \$200,801    | \$ 200,801     |
| 2.          | Expenses                                   | \$131,094    | \$ 131,094     |
| 3.          | Taxes Other Than Income Taxes              | \$ 12,190    | \$ 12,190      |
| 4.          | Depreciation                               | \$ 9,318     | \$ 9,318       |
| 5.          | State Taxable Income                       | \$ 48,199    |                |
| 6.          | State Income Tax (@8.84% or \$800 minimum) | \$ 4,261     |                |
| 7.          | Federal Taxable Income                     |              | \$ 43,938      |
| 8.          | Federal Income Tax (15% - 34%)             |              | \$ 6,591       |
| 9.          | TOTAL INCOME TAX                           |              | \$ 10,852      |